

103D CONGRESS  
1ST SESSION

# H. R. 960

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the treatment of forestry activities.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 18, 1993

Mr. WYDEN (for himself, Mr. KOPETSKI, Mr. SUNQUIST, Mr. SMITH of Oregon, Mr. ROWLAND, Mr. CLYBURN, Mr. SWIFT, Mr. WILSON, Ms. FURSE, Mr. EMERSON, Mr. BAKER of Louisiana, Mr. LAFALCE, Mrs. UNSOELD, Mr. MONTGOMERY, Mr. HERGER, Mr. MCCRERY, Mr. LIVINGSTON, and Mr. BEVILL) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to modify certain provisions relating to the treatment of forestry activities.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### 3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Reforestation Tax Act  
5 of 1993”.

### 6 **SEC. 2. PARTIAL INFLATION ADJUSTMENT FOR TIMBER.**

7 (a) IN GENERAL.—Part I of subchapter P of chapter  
8 1 of the Internal Revenue Code of 1986 (relating to treat-

1 ment of capital gains) is amended by adding at the end  
2 the following new section:

3 **“SEC. 1202. PARTIAL INFLATION ADJUSTMENT FOR TIM-**  
4 **BER.**

5 “(a) IN GENERAL.—At the election of any taxpayer  
6 who has qualified timber gain for any taxable year, there  
7 shall be allowed as a deduction from gross income an  
8 amount equal to the qualified percentage of such gain.

9 “(b) QUALIFIED TIMBER GAIN.—For purposes of  
10 this section, the term ‘qualified timber gain’ means the  
11 lesser of—

12 “(1) the net capital gain for the taxable year,  
13 or

14 “(2) the net capital gain for the taxable year  
15 determined by taking into account only gains and  
16 losses from timber.

17 “(c) QUALIFIED PERCENTAGE.—For purposes of this  
18 section, the term ‘qualified percentage’ means the percent-  
19 age (not exceeding 50 percent) determined by multiply-  
20 ing—

21 “(1) 3 percent, by

22 “(2) the number of years in the holding period  
23 of the taxpayer with respect to the timber.

24 “(d) ESTATES AND TRUSTS.—In the case of an es-  
25 tate or trust, the deduction under subsection (a) shall be

1 computed by excluding the portion (if any) of the gains  
2 for the taxable year from sales or exchanges of capital as-  
3 sets which, under sections 652 and 662 (relating to inclu-  
4 sions of amounts in gross income of beneficiaries of  
5 trusts), is includible by the income beneficiaries as gain  
6 derived from the sale or exchange of capital assets.”

7 (b) COORDINATION WITH EXISTING LIMITATIONS.—

8 (1) Subsection (h) of section 1 of such Code  
9 (relating to maximum capital gains rate) is amended  
10 by inserting after “net capital gain” each place it  
11 appears the following: “(other than qualified timber  
12 gain with respect to which an election is made under  
13 section 1202)”.

14 (2) Subsection (a) of section 1201 of such Code  
15 (relating to alternative tax for corporations) is  
16 amended by inserting after “net capital gain” each  
17 place it appears the following: “(other than qualified  
18 timber gain with respect to which an election is  
19 made under section 1202)”.

20 (c) ALLOWANCE OF DEDUCTION IN COMPUTING AD-  
21 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
22 such Code (relating to definition of adjusted gross income)  
23 is amended by adding at the end the following new para-  
24 graph:

1           “(15) PARTIAL INFLATION ADJUSTMENT FOR  
2       TIMBER.—The deduction allowed by section 1202.”

3       (d) CONFORMING AMENDMENT.—The table of sec-  
4       tions for part I of subchapter P of chapter 1 of such Code  
5       is amended by adding at the end the following new item:

          “Sec. 1202. Partial inflation adjustment for timber.”

6       (e) EFFECTIVE DATE.—The amendments made by  
7       this section shall apply to sales or exchanges after Decem-  
8       ber 31, 1993.

9       **SEC. 3. APPLICATION OF PASSIVE LOSS LIMITATIONS TO**  
10           **TIMBER ACTIVITIES.**

11       (a) IN GENERAL.—Treasury regulations sections  
12       1.469–5T(b)(2) (ii) and (iii) shall not apply to any closely  
13       held timber activity if the nature of such activity is such  
14       that the aggregate hours devoted to management of the  
15       activity for any year is generally less than 100 hours.

16       (b) DEFINITIONS.—For purposes of subsection (a)—

17           (1) CLOSELY HELD ACTIVITY.—An activity  
18       shall be treated as closely held if at least 80 percent  
19       of the ownership interests in the activity is held—

20           (A) by 5 or fewer individuals, or

21           (B) by individuals who are members of the  
22       same family (within the meaning of section  
23       2032A(e)(2) of the Internal Revenue Code of  
24       1986).

1 An interest in a limited partnership shall in no event  
2 be treated as a closely held activity for purposes of  
3 this section.

4 (2) TIMBER ACTIVITY.—The term “timber ac-  
5 tivity” means the planting, cultivating, caring, cut-  
6 ting, or preparation (other than milling) for market,  
7 of trees.

8 (c) EFFECTIVE DATE.—This section shall apply to  
9 taxable years beginning after December 31, 1993.

10 **SEC. 4. AMORTIZATION OF REFORESTATION EXPENDI-**  
11 **TURES AND REFORESTATION TAX CREDIT.**

12 (a) INCREASE IN MAXIMUM AMORTIZABLE  
13 AMOUNT.—

14 (1) IN GENERAL.—Paragraph (1) of section  
15 194(b) of the Internal Revenue Code of 1986 (relat-  
16 ing to maximum dollar amount) is amended by strik-  
17 ing “\$10,000 (\$5,000” and inserting “\$20,000  
18 (\$10,000”.

19 (2) INFLATION ADJUSTMENT.—Subsection (b)  
20 of section 194 of such Code (relating to limitations)  
21 is amended by redesignating paragraphs (2), (3),  
22 and (4) as paragraphs (3), (4), and (5), respectively,  
23 and by inserting after paragraph (1) the following  
24 new paragraph:

25 “(2) INFLATION ADJUSTMENT.—

“(A) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1994, each dollar amount contained in paragraph (1) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 1993’ for ‘calendar year 1989’ in subparagraph (B) of such section.

“(B) ROUNDING.—If any increase determined under subparagraph (A) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”

(3) APPLICABILITY TO REFORESTATION CREDIT.—Paragraph (1) of section 48(b) of such Code (relating to reforestation credit) is amended by striking “section 194(b)(1)” and inserting “paragraphs (1) and (2) of section 194(b)”.

(b) AMORTIZATION PERIOD SHORTENED TO 60 MONTHS.—Subsection (a) of section 194 of such Code is amended—

1           (1) by striking “84 months” and inserting “60  
2       months”, and

3           (2) by striking “84-month” and inserting “80-  
4       month”.

5       (c) AVAILABILITY OF DEDUCTION AND CREDIT TO  
6       TRUSTS.—Subsection (b) of section 194 of such Code (as  
7       amended by subsection (a)(2) of this section) is amend-  
8       ed—

9           (1) by striking paragraph (4),

10          (2) in paragraph (5)—

11               (A) by inserting “AND TRUSTS” after “Es-  
12       TATES”, and

13               (B) by inserting “and trusts” after “es-  
14       tates”, and

15          (3) by redesignating paragraph (5) as para-  
16       graph (4).

17       (d) EFFECTIVE DATE.—

18           (1) AMORTIZATION PROVISIONS.—Except as  
19       provided in paragraph (2), the amendments made by  
20       this section shall apply to additions to capital ac-  
21       count made after December 31, 1993.

22           (2) TAX CREDIT PROVISIONS.—In the case of  
23       the reforestation credit under section 48(b) of the  
24       Internal Revenue Code of 1986, the amendments

- 1       made by this section shall apply to property acquired
- 2       after December 31, 1993.

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